

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
HANOVER, KANSAS**

Financial Statements
With
Independent Auditors' Report
DECEMBER 31, 2015

BRUNA AUDITING SERVICES LLC
DEREK BRUNA
CERTIFIED PUBLIC ACCOUNTANT
WASHINGTON, KANSAS

RURAL WATER DISTRICT #1
WASHINGTON COUNTY, KANSAS
HANOVER, KANSAS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Washington County Rural Water District No. 1
Hanover, Kansas 66945

I have audited the accompanying financial statements of Washington County Rural Water District No. 1 (WCRWD No. 1) which comprise the Statement of Net Position as of and for the year ended December 31, 2015, and the related Statement of Revenues, Expenses, and Changes in Fund Net Position, and Cash Flow for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the accounting principles generally accepted in the United States of America and the *Kansas Municipal Audit Guide* (KMAAG); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statement based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the WCRWD No. 1, as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 12 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of management's response to our inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Bruna Auditing Services LLC



Derek Bruna, CPA

Washington, Kansas

February 08, 2016

WASHINGTON CO. RURAL WATER DISTRICT #1
STATEMENT OF NET POSITION

December 31, 2015

PRIMARY GOVERNMENT-BUSINESS TYPE ACTIVITIES

ASSETS

CURRENT ASSETS

United Bank And Trust MMDA	\$ 145,277
Bank of Palmer CD 160K	183,245
Bank of Palmer CD	57,594
Citizens State Bank	73,126
Citizens State Bank-CD	160,168
First Commerce Bank	242,769
Petty Cash	247
Accounts Receivable	(795)
Inventories	90,127
Prepaid Expenses	5,521
Prepaid Insurance	14,898
TOTAL CURRENT ASSETS	\$ 972,177

NONCURRENT ASSETS

Bond Reserve Account	\$ 0
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DEFERRED OUTFLOWS OF RESOURCES

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CAPITAL ASSETS

Alternate Source Water	\$ 70,839
Equip & Water System: River Crossing	158,248
Equip & Water System: Well Field	1,219,088
Equip & Water System: Equipment & Water System	3,746,870
Equip & Water System: Land & Easements	81,717
Equip & Water System: Office & Shop Building	193,028
Equip & Water System: Office Furniture & Equipment	21,809
Equip & Water System: Vehicles	141,101
Bond Issuance Cost	25,498
Accumulated Amortization Depreciation	(6,375)
Accumulated Depreciation-Equipment and Water System	(3,362,724)
Accumulated Depreciation-Office & Shop Building	(43,753)
Accumulated Depreciation- Office Equipment	(18,825)
Accumulated Depreciation-Vehicles	(120,433)
NET CAPITAL ASSETS	\$ 2,106,088
TOTAL ASSETS	\$ 3,078,265

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts Payable	\$ (3,772)
Health Insurance Liability	812
Bonds-Current Portion	70,000
Interest Payable	14,693
Payroll Liabilities: Unemployment Tax	(3)
Payroll Liabilities: Kansas Withholding Tax	(332)
Payroll Liabilities: Other	(5,253)
Sales Tax Payable	0
Water Protection Payable	0
TOTAL CURRENT LIABILITIES	\$ 76,145

LONG-TERM LIABILITIES

Bonds	\$ 1,330,000
TOTAL LONG-TERM LIABILITIES	\$ 1,330,000
TOTAL LIABILITIES	\$ 1,406,145

DEFERRED INFLOWS OF RESOURCES

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NET POSITION

Invested in Capital Assets Net of Related Debt	\$ 706,088
Restricted for Debt Service	169,500
Unrestricted	796,532
TOTAL NET POSITION	\$ 1,672,120

TOTAL LIABILITIES AND NET POSITION

\$ 3,078,265

See accompanying notes to the financial statements

WASHINGTON CO. RURAL WATER DISTRICT #1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015

	December 31, 2015
OPERATING REVENUES	
Collection Fees	\$ 425
Freeze Pad	90
Late Penalty	6,963
Maintenance Fee	169,650
Miscellaneous	773
Reading Meter	3,040
Transfer Fees	575
Miscellaneous	888
Water Sales	400,489
TOTAL SALES	\$ 582,893
OPERATING EXPENSES	
IDT	\$ 93,537
Auditing, Geologists & Legal	3,311
Bank Charges	(104)
Chemicals	8,657
Depreciation/Amorization	108,793
Dues	649
Equipment: Maintenance & Repairs	7,788
Insurance: Employee H & A	671
Insurance: Other	5,211
Insurance: Liability	16,391
Leak Reporting	260
Lease	6,050
Meeting Expense	11,594
Mileage	602
Miscellaneous Expense	1,374
Office Expense	4,570
Payroll Expenses	25,267
Postage	2,993
Preventative Maintenance	338
Radio	120
Repairs & Maintenance: Mowing	4,563
Repairs & Maintenance: Supplies	28,555
Repairs & Maintenance: Other	18,493
Retirement Expense	16,154
Salaries	148,010
Shop Expenses	2,849
Taxes: Clean Drinking Water Fee	2,100
Truck Expense: Gas	11,153
Truck Expense: Maintenance	6,011
Truck Expense: Repairs	2,501
Truck Expense: Repairs-92 Ford Ranger	43
Truck Expense: Other	756
Utilities: Electricity	34,257
Utilities: Telephone: Darrell's Cell	648
Utilities: Telephone: Office	1,996
Utilities: Trash	546
Utilities: Water & Sewer	405
Water Testing	3,894
Tank Maintenance	7,416
TOTAL OPERATING EXPENSES	\$ 588,423
NET ORDINARY INCOME	\$ (5,530)
OTHER INCOME (EXPENSE)	
Farm	\$ 4,500
Farm Taxes & Repairs	(1,045)
Interest Expense	(60,113)
Misc Income	160
Interest Income: Citizens State Bank	4,889
Interest Income: First Commerce	485
Interest Income: United	6,918
TOTAL OTHER INCOME (EXPENSE)	\$ (44,206)
CHANGE IN NET POSITION	\$ (49,736)
NET POSITION, BEGINNING OF PERIOD	1,709,856
CAPITAL CONTRIBUTIONS, ADJUSTMENT/BENEFIT UNIT	12,000
NET POSITION, END OF PERIOD	1,672,120

See accompanying notes to the financial statements

WASHINGTON CO. RURAL WATER DISTRICT #1
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

	2014
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts	
Other receipts farm	\$ 584,123
Cash payments for goods and services	4,500
	(543,780)
	<u>44,843</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash payments for equipment, well field, etc.	(81,037)
Cash payment for alternative source of water	(64,199)
Cash received miscellaneous source	160
Cash received for adjustment, benefit unit	12,000
Cash payments for retiring bond debt	<u>(65,000)</u>
	(198,076)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
Net (deposits) withdrawals to investments	0
Interest received	12,292
	<u>12,292</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(140,941)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>1,003,367</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>\$ 862,426</u></u>

See accompanying notes to the financial statements

WASHINGTON CO. RURAL WATER DISTRICT #1
STATEMENT OF CASH FLOWS - CONTINUED
Year Ended December 31, 2015

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET	2014
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	\$
Operating Income (loss)	(2,075)
Adjustments to reconcile operating income (loss)	
to net cash provided (used) by operating activities:	
Depreciation	108,793
Change in assets and liabilities:	
(increase) decrease in accounts receivable	(1,230)
(increase) decrease in prepaid insurance	(1,567)
(increase) decrease in prepaid expenses	388
(increase) decrease in inventory	4,633
increase (decrease) in accounts payable	(3,984)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ <u>104,958</u>

See accompanying notes to the financial statements

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Rural Water District No. 1, Washington County, Kansas (the District) was organized under Kansas statutes for the purpose of providing a water supply system for landowners within the area of the District. The District is a Kansas municipality and is exempt from federal and state income taxes. It is governed by an elected seven-member board of directors.

Basis of Accounting: The financial statements are presented on the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Basis of Presentation: WCRWD No. 1 is accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included in the Statement of Position. The reporting entity reports everything under the primary government business-type activities as they do not have component units or any other governmental activities to report.

GAAP for state and local governments requires that resources be classified for accounting and reporting purposes in the following three net position categories.

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated Depreciation reduces the balance in this category.

Unrestricted - Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purpose by action of management or the District Board or may otherwise be limited by contractual agreements with outside parties.

Restricted - Net position whose use by the District is subject to externally imposed stipulations that can be fulfilled by actions of the District pursuant to those stipulations or they expire by the passage of time. Such assets include assets restricted for capital acquisitions and debt service.

1. DISTRICTs must begin reporting deferred inflows and outflows and net position for any financial statements issued for periods ending after December 15, 2011. The basic statements must be formatted to include "net position" to comply with the requirements of GASB 63.
2. The Statement of Net Assets will be renamed the Statement of Net Position.
3. Two new reporting elements on the Statement of Net Position will be established - Deferred Outflows of Resources and Deferred Inflows of Resources.
4. Certain accounts will be reclassified as deferred outflows or inflows and certain transactions will no longer be reported in the financial statements in accordance with GASB 65.
5. All categories of net assets will be renamed "net position" (e.g., unrestricted net position, restricted net position, etc.).
6. The term deferred (i.e., deferred revenue) can now only be used to describe inflows and outflows. Therefore, the term "deferred revenues" will be renamed unearned revenue.

However, these net position accounts only reflect the basic top-level financial statements. *GASB Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34) requires that governmental funds be presented in a balance sheet format. Consequently, GASB 63 does not modify the format required under GASB 34. The model as defined in Statement No. 34 established

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for determination of major Funds. If non-major funds exist, these funds are combined in a single column in the fund financial statements.

Tax Status The Organization is a governmental subdivision of the State of Kansas and is exempt from Federal and State income taxes.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ significantly from such estimates and assumptions.

Cash and Equivalents/ Investments: Cash includes all monies in the bank and highly liquid investments with maturity dates of less than three months. The carrying value of cash approximates fair value because of the short maturities of those instruments. Investments are stated at cost and consist of certificates of deposit which have an original maturity date longer than three months. All investments are in financial institutions insured by the FDIC. Investments in excess of \$250,000 FDIC Insurance are collateralized with bank instruments.

A breakdown of cash and investments:

United Bank MMDA account	\$145,277
Bank of Palmer CD	\$183,245
Bank of Palmer CD	\$57,594
Citizens State Bank	\$73,126
Citizens State Bank CD	\$160,168
First Commerce Bank	\$242,769
Petty Cash	\$247

Total

\$862,426 carrying amount of deposits

Accounts Payable: The carrying amount of accounts payable at the end of the year was \$6,145.

Accounts Receivable: Accounts receivable are stated net of any credit balances. All accounts receivable as of December 31, 2015 are considered collectible and in fact the district is overpaid currently.

Inventory: Inventory is stated at the lower of cost (first-in, first-out method) or market. Inventory amounts include materials for expansion of the water system. As the materials are used, they are charged to the property or capitalized appropriately. The amount of inventory on the books for 2015 is \$90,127.

Fair Value of Financial Instruments: "Disclosure about Fair Value of Financial Instruments," requires certain disclosures regarding the fair value of financial instruments. Cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, as shown in the financial statements at fair value because of the short-term maturity of these instruments, (which is also their carrying value.)

Capital Assets: Depreciation of property and equipment for financial statement purposes is computed using the straight-line method over the estimated useful lives of the assets. Please refer to Table 1 for breakdown of capital assets and useful lives information.

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

The Statement of Cash Flows was prepared with the Direct Method and a reconciliation of net income to net cash provided by operating activities has been provided.

The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The District distinguishes between operating and non-operating revenues and expenses in its Statement of Revenues, Expenses and Changes in Net Position. For this purpose, the District's operating revenues result from providing water to the benefit units on the grid, as well as any fees associated with providing this. Operating expenses include the cost attributed to administration, client services, utilities, maintenance and operations and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Amortization Issuance costs of bonds are amortized under the straight line method over the life of the bonds.

Risk Management: The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters for which the District purchases commercial insurance. During the year ended December 31, 2015 the District did not reduce insurance coverage from levels in place during the prior year. No settlements have exceeded coverage levels in place during the past three fiscal years.

Prepaid balances are for payments made by the District in the current year to provide services occurring in the subsequent fiscal year and include but are not limited to fuel, prepaid insurance, engineering fees, etc.

Investment Income: Investment Income for the year ended December 31, 2015 was \$12,292, which was all interest on bank deposits.

Revenues/Expenses: The major categories of revenue and expense items, water sales and activities, operating expenses, administrative expenses, etc. are shown separately on the face of the Statement of Revenues, Expenses and Changes in Fund Net Position.

Bond Payable: A resolution of Rural Water District No. 1, Washington County, Kansas, approving the issuance by The Kansas Rural Water Finance Authority of \$1,695,000 aggregate principle amount of Kansas Rural Water Finance Authority Revenue Bonds, Series B, 2010, (Rural Water District No. 1, Washington County, Kansas) to provide financing for the construction and acquisition of certain water distribution system improvements of said rural water district; authorizing the execution of a promissory note, pledge of revenues agreement and ancillary financing documents between said rural water district and the Kansas Rural Water Finance Authority dates as of July 1, 2010, which contain certain covenants and provisions respecting the operation and revenues of the district's water distribution system and other matters relating thereto which will provide for the payment of such bonds. As of December 31, 2015, all \$1,695,000 had been received. Please Refer to Management Discussion and Analysis and Table 2 for more information pertaining to Bond Issuance.

Net Position: The fund financial statements utilize a net position presentation. Net position amounts are categorized as net invested in capital assets and unrestricted.

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

GASB 40 Disclosures

Custodial Credit Risk-This is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are held by the counterparty. All of the District's investments are held in the name of the District. The District is not subject to custodial credit risk as the deposits are covered by depository insurance.

Credit Risk- This is risk that an investment will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The District's investment policy is that none of its total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities.

Interest Rate Risk- As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment portfolio to short term investments. At year end, the District's deposits and investments were all invested in such accounts, and in fact are all current and liquid.

Concentration of Credit Risk-The entity is not subject to this risk even though all of its deposits are with the same banking institution because they are guaranteed through FDIC Insurance. The balance of deposits in the bank are below the federal limit of \$250,000.

Bond Reserve Account: Kansas Department of Health and Environment requires a 10% reserve account of the issuance of the bond. That amount is \$169,950 and is shown as a restricted asset.

Use of Restricted/Unrestricted Net Assets: When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted assets first.

Net revenues of the District have been pledged as security for the debt, and the District is required to have net revenues, as defined in the debt agreements, in each year of at least 125% of that year's principal and interest payment requirements. This requirement was not met for the year ended December 31, 2015.

Defined Benefit Pension Plan: *Plan description* *Plan description.* The District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, etc. seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy. *Funding Policy.* K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends KMAAG (1/15) D-10 on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate of 5% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. Member employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the statutory required employers share.

Net Pension Liability. The total pension liability for KPERS was determined by an actuarial valuation as of December 31, 2013, which was rolled forward to June 30, 2014. As of June 30, 2014 the net pension liability for KPERS was \$8,291,794,910. KPERS has determined the District's proportionate share of the net pension liability is \$96,668 as of June 30, 2014. The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kpers.org or can be obtained as described in the first paragraph above. Note: The report expected to be issued by KPERS containing the allocation of the

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

net pension liability to participating entities may not be available from KPERS for those entities who will be issuing reports with fiscal years ending December 31, 2014 in early 2015. It is not known at the time of this publishing date when this information will be available from KPERS. If the KPERS report is not available at the time the District issues their financial statements, it would not be appropriate to disclose the Net Pension Liability footnote.

Litigation: There is no pending litigation noted for the District as of the date the audit report was issued.

Subsequent Events: The financial statements considered subsequent events through February 8, 2016 the date the financial statements were available to be issued as management reviewed events through aforementioned date.

WASHINGTON COUNTRY RURAL WATER DISTRICT NO. 1 - HANOVER, KANSAS
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2015

Table 1

ASSET	LIFE	COST	ACCUMULATED DEPRECIATION	COST LESS DEPRECIATION
Buildings	33-50 Years			
Water Transmission/Distribution System	33-40 Years			
Equipment	6-10 Years			
Vehicles	5 Years			
2015 YEAR END				
Well Field		\$ 1,219,088	\$ 142,929	\$ 1,076,159
Equipment & Water Systems		3,746,870	3,202,098	544,772
Land & Easements		81,717	0	81,717
Office & Shop Building		193,028	43,753	149,275
Office Furniture & Equipment		21,809	18,825	2,984
Vehicles		141,101	120,433	20,668
River Crossing		158,248	17,697	140,551
Bond Issuance Cost		25,498	6,375	19,123
TOTAL		\$ 5,587,359	3,552,110	\$ 2,035,249
2014 YEAR END				
Well Field		\$ 1,217,032	\$ 112,474	\$ 1,104,558
Equipment & Water Systems		3,667,975	3,143,808	524,167
Land & Easements		81,631	0	81,631
Office & Shop Building		193,028	39,893	153,135
Office Furniture & Equipment		21,809	17,482	4,327
Vehicles		141,101	110,819	30,282
River Crossing		158,248	13,741	144,507
Bond Issuance Cost		25,498	5,100	20,398
TOTAL		\$ 5,506,322	\$ 3,443,317	\$ 2,063,005

WASHINGTON COUNTRY RURAL WATER DISTRICT NO. 1 - HANOVER, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

Table 2

STATEMENT OF CHANGES IN LONG - TERM DEBT
For the Year Ended December 31, 2015

	<u>Interest Rate</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Net Change</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
<u>Issue</u>									
Revenue Bond B									
Series 2010	1.0-4.6%	\$ 1,695,000	10/1/2030	\$ 1,465,000	\$ 0	-\$65,000	-\$65,000	\$ 1,400,000	\$ 60,113
<u>Principal Payments Made</u>									
	2011	\$40,000							
	2012	\$60,000							
	2013	\$65,000							
	2014	\$65,000							
	2015	\$65,000							
Total								\$295,000	

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 1 MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2015

This section of the Washington County Rural Water District No. 1's annual financial report presents analysis of the District's financial performance during the fiscal year ended on December 31, 2015. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. The District's financial statements are presented as one fund level financial statements because the District operates with a single fund.

Required Financial Statements

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

The budgetary comparison is presented with the financial statements, and such information is required by GASB, who considers it to be an integral part of financial reporting for the users of the financial statements. Along with this MD&A, they should be used concurrently with financial statements taken as a whole.

FINANCIAL HIGHLIGHTS AND ANALYSIS

Please refer to the attached table which shows a Condensed Statement of Net Position and Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position.

Net position may serve, over time, as a useful indicator of a government's financial position. The Statement of Net Position has been prepared implementing GASB 63 and 65. The financial element "net position" replaces the term "net assets." Net assets represented the difference between assets and liabilities. Net position represents the difference between a.) assets and deferred outflows of resources, and b.) liabilities and deferred inflows of resources. The entity does not have any deferred inflows or outflows of resources to report on the Statement of Net Position. In the case of the District, the total net position as of year ended December 31, 2015 was \$1,672,120. The net position is comprised of Net Investment in Capital Assets of \$706,088, Restricted Bond Reserves of \$169,500 and Unrestricted Amounts of \$796,532. This represents a decrease of \$37,736 from the previous year end of

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015

\$1,709,856 or 2.21%. This is from the decrease in current assets due the nature and timing of the expenditures of the entity discussed throughout this section.

Current assets decreased \$143,164, with the balance in liquid accounts down 12.84%. Operating revenues were increased \$6,152, but the payments for bond/interest and IDT have depleted the current assets more than this increase. Accounts receivable have stayed relatively constant which shows management is staying on top of billing and doing a good job of collecting. The account for alternate source of water that the district had paid was up to \$70,839. The district had paid \$64,199, and they were reimbursed for these expenses after the end of the year. This will show up in the FYE ended 12/31/16 information, but at the end of the year the district had expended the money and it drove down the current assets.

Current liabilities were also relatively constant, with the bond payable increasing to \$70,000 for the next fiscal year.

Unrestricted amounts of net position were \$796,532 for the year ended. This number fell as the amount of expenditures exceeded the amount of incoming revenues for the year. Again, the expenditures discussed above (Alternate Source of Water), IDT expense, and below (Capital Asset Acquisition) used up a good portion of this and is the reason for the decrease. Unrestricted amounts of net position represent the amount available to be used to meet the District's ongoing obligations to creditors and operations of facilities. The District has sufficient funds to meet requirements for cash outlays in the next fiscal years as well as the financial capacity to sustain operations. At the end of the current fiscal year, the District is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal years.

A large portion of the District's net position reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The District uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending. The Net Investments in Capital Assets decreased due to more depreciation expense being claimed than capital assets purchased this fiscal year. The amount invested in capital assets for the year ended were \$81,037, while the previous year amount was \$11,898. Depreciation amounted to \$108,793 for 2015, while it was \$170,578 for 2014. Assets that had been depreciating had their useful life run out. The expenditures for the period were primarily project oriented. Please see the Condensed Tables as well as Table 1 in the Notes for a breakdown of the capital assets being utilized by the District.

While the Statement of Net Position shows the change in financial position of assets, the Statements of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes.

Operating loss for the District was (\$5,530) for the year ended December 31, 2015. This is a large increase prior year. The prior year showed an (\$84,312) loss. The driving number behind this is depreciation being less. The expense for IDT of \$93,537 is also driving the income for the period down, and when that is removed, the results would be far different. After adding in other farm income and interest income/expense the aggregate loss for the year is (\$49,736). The interest expense on the bonds is in this figure of \$60,113. Again, without the IDT expense, this number would have been positive, even with depreciation expense being claimed.

The statement of cash flows shows an increase in cash and equivalents from \$1,003,367 to \$862,426. Again, the reason for the drain of cash has been discussed.

The bond payable has been put in the financials, and the cost of issuance has also been put in as an asset to amortize over the life of the bond. The proceeds from the bond have either been spent on assets, or are in the United Bank and Trust account. The amount of unrequested funds is currently being held in an insured account, and can be requested per the District's needs. The money spent on the well fields and river crossing projects can be verified respectively on the balance sheet. There have been four payments made, and \$295,00 of principal has been paid off and currently the bond is on the books at the current portion of \$70,000 and the long term portion showing

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1,330,000 for a total of 1,400,000. Also, interest was accrued on the bond, and put in as an expense as a year-end adjustment. The portion payable within the upcoming fiscal year will be shown as a short-term liability and the balance will remain a long-term liability. More information regarding the issuance of the bond can be found in Note Table 2 of the notes to the financial statements.

CAPITAL ASSET

Capital Assets – The Water District's investment in capital assets as of December 31, 2015 amounts to \$2,035,249 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment well fields, projects and construction in progress.

Additional information on the District's capital assets can be found in Note A and Table 1 of the notes to the financial statements of this report.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Mr. Darryl Schlabach, Washington County Rural Water District No. 1, 101 S Bern Street, Hanover, KS 66945.

WASHINGTON COUNTRY RURAL WATER DISTRICT NO. 1 - HANOVER, KANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015

FINANCIAL ANALYSIS - 2015

CONDENSED STATEMENTS OF NET POSITION

	<u>FY 2015</u>	<u>FY 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current/other assets	\$ 972,177	\$ 1,115,341	\$ -143,164	-12.84%
Capital assets	<u>2,106,088</u>	<u>2,069,644</u>	<u>36,444</u>	<u>1.76%</u>
Total Assets	<u><u>3,078,265</u></u>	<u><u>3,184,985</u></u>	<u><u>-106,720</u></u>	<u><u>-3.35%</u></u>
Deferred Outflows of Resources	0	0	0	0.00%
Current/other liabilities	76,145	75,129	1,016	1.35%
Long Term liabilities	<u>1,330,000</u>	<u>1,400,000</u>	<u>-70,000</u>	<u>-5.00%</u>
Total Liabilities	<u><u>1,406,145</u></u>	<u><u>1,475,129</u></u>	<u><u>-68,984</u></u>	<u><u>-4.68%</u></u>
Deferred Inflows of Resources	0	0	0	0.00%
Net Position				
Net Invested in capital assets	706,088	613,875	92,213	15.02%
Restricted	169,500	169,500	0	0.00%
Unrestricted	<u>796,532</u>	<u>926,481</u>	<u>-129,949</u>	<u>-14.03%</u>
Total Net Assets	<u><u>\$ 1,672,120</u></u>	<u><u>\$ 1,709,856</u></u>	<u><u>\$ -37,736</u></u>	<u><u>-2.21%</u></u>

**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

	<u>FY 2015</u>	<u>FY 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues				
Operations	\$ 582,893	\$ 576,741	\$ 6,152	1.07%
Other	16,952	17,224	-272	-1.58%
Total Revenues	<u>599,845</u>	<u>593,965</u>	<u>5,880</u>	<u>0.99%</u>
Expenses				
Depreciation	108,793	170,578	-61,785	-36.22%
Operating	<u>540,788</u>	<u>490,474</u>	<u>50,314</u>	<u>10.26%</u>
Total Expenses	<u>649,581</u>	<u>661,052</u>	<u>-11,471</u>	<u>-1.74%</u>
Excess (deficiency) before contributions	-49,736	-67,087	17,351	-25.86%
Changes in Net Position	-49,736	-67,087	17,351	
Beginning net position	<u>1,709,856</u>	<u>1,758,729</u>	<u>-48,873</u>	
Capital Contributed, Adjust/Benefit Unit	12,000	18,214	-6,214	
Ending net position	<u><u>\$ 1,672,120</u></u>	<u><u>\$ 1,709,856</u></u>	<u><u>\$ -37,736</u></u>	<u><u>-2.21%</u></u>